

CITY OF LEAD

AUDIT REPORT

DECEMBER 31, 2008

CITY OF LEAD
TABLE OF CONTENTS

	Page
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1-3
Independent Auditor's Report	4-5
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Assets as of December 31, 2008	6
Statement of Activities for the Year ended December 31, 2008	7-8
FUND FINANCIAL STATEMENTS	
Balance Sheet-Governmental Funds as of December 31, 2008	9
Reconciliation of the Governmental Funds Balance Sheet To the Statement of Net Assets	10
Statement of Revenues, Expenditures and Changes in Fund Balances-Governmental Funds-for the Year ended December 31, 2008	11-12
Reconciliation of the Statement of Revenues, Expenditures And Changes in Fund Balance to the Government-wide Statement of Activities	13
Balance Sheet-Proprietary Funds as of December 31, 2008	14-17
Statement of Revenues, Expenses and Changes in Fund Net Assets-Proprietary Fund-for the Year ended December 31, 2008	18-19
Statement of Cash Flows Proprietary Funds-for the Year Ended December 31, 2008	20-21
Statement of Fiduciary Net Assets - Fiduciary Funds - As of December 31, 2008	22
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds - for the Year ended December 31, 2008	23
Notes to Financial Statements	24-53
Schedule of Current Audit Findings	54-56
Schedule of Prior Audit Findings	57

Gary L. Larson, CPA

900 Winchester Drive
Pierre, SD 57501
(605) 940-1284
glarsoncpa@pie.midco.net

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Commission
City of Lead
Lead, South Dakota

I was engaged to audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lead, South Dakota as of December 31, 2008, and for the year then ended which comprise the City's basic financial statements, and have issued my report thereon dated June 19, 2009, which was a disclaimer of opinion due to inadequate fixed asset records and failure to report interfund services provided.

I was engaged to conduct my audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In my attempt to conduct the audit, I considered the City of Lead's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lead's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Lead's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I considered to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Lead's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Lead's financial statements that is more than inconsequential will not be prevented or detected by the City of Lead's internal control. I consider the deficiencies described in the accompanying schedule of current audit findings to be significant deficiencies in internal control over financial reporting. See findings number 2008-01 and 2008-02.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Lead's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that all of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

In an attempt to obtain reasonable assurance about whether the City of Lead's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance and other matters that are required to be reported under Government Auditing Standards. See the accompanying Schedule of Current Audit Findings, finding number 2008-02 and 2008-03.

City of Lead's response to the findings identified in my audit is described in the accompanying schedule of current audit findings. I did not audit City of Lead's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the governing board and information of the management of the City of Lead and the South Dakota Legislature and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11 this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Amy J. Larson". The signature is fluid and cursive, with the first name "Amy" and last name "Larson" clearly distinguishable.

June 19, 2009

Gary L. Larson, CPA

900 Winchester Drive
Pierre, SD 57501
(605) 940-1284
glarsoncpa@pie.midco.net

INDEPENDENT AUDITOR'S REPORT

City Commission
City of Lead
Lead, South Dakota

I was engaged to audit the accompanying financial statements of the governmental activities, the business-type activities and each major fund and the aggregate remaining fund information of the City of Lead, South Dakota, as of December 31, 2008, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lead's management.

Evidence supporting the cost or estimated cost and related accumulated depreciation of capital assets was inadequate. The City's records do not permit the application of adequate alternative procedures regarding the cost of capital assets, accumulated depreciation and depreciation expense.

Land beneath the buildings of the business-type activities has not been assigned a value.

An enterprise fund was incorrectly reported as an internal service fund.

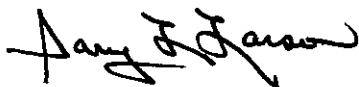
The City failed to report interfund services for the year 2008.

Since the City did not maintain adequate capital asset or interfund services records during 2008 and I was not able to apply other auditing procedures to satisfy myself as to the reported net assets and activities of the City, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on these financial statements.

In accordance with the Government Auditing Standards, I have also issued my report dated June 19, 2009 on my consideration of the City of Lead's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance

and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of my audit.

The City has not presented the Management's Discussion and Analysis nor the budgetary comparison information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, appearing to read "Amy J. Hanson". The signature is fluid and cursive, with a prominent loop at the end.

June 19, 2009

CITY OF LEAD
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	Governmental Activities	Business-type Activities	TOTAL
ASSETS:			
Cash and cash equivalents	\$472,584	\$300,714	\$773,298
Receivables	116,932	95,321	212,253
Inventories	20,074	0	20,074
Other assets	7,239	0	7,239
Restricted assets:			
Deposits	69,918	0	69,918
Capital assets:			
Land and construction-in-progress	2,854,203	0	2,854,203
Other capital assets, net of depreciation	987,804	4,118,099	5,105,903
TOTAL ASSETS	\$4,528,754	\$4,514,134	\$9,042,888
LIABILITIES:			
Accounts payable	\$27,013	\$88,817	\$115,830
Other current liabilities	8,919	2,273	11,192
Noncurrent liabilities:			
Due within one year	161,336	62,438	223,774
Due in more than one year	289,952	685,467	975,419
TOTAL LIABILITIES	487,220	838,995	1,326,215
NET ASSETS:			
Invested in capital assets, net of related debt	3,437,783	3,383,902	6,821,685
Restricted for:			
Insurance	69,918	0	69,918
Cemetery-			
Expendable	41,093	0	41,093
Nonexpendable	50,000	0	50,000
Unrestricted	442,740	291,237	733,977
TOTAL NET ASSETS	4,041,534	3,675,139	7,716,673
TOTAL LIABILITIES AND NET ASSETS	\$4,528,754	\$4,514,134	\$9,042,888

The accompanying notes to financial statements
are an integral part of this statement.

**CITY OF LEAD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants and Contributions
Governmental Activities:			
General government	\$454,177	\$2,879	\$0
Public safety	580,710	29,275	79,931
Public works	651,039	27,447	39,921
Health and welfare	51,226	0	0
Culture and recreation	336,438	4,548	103,612
Conservation and development	29,237	0	0
*Interest on long-term debt	29,559	0	0
TOTAL GOVERNMENTAL ACTIVITIES	2,132,386	64,149	223,464
Business-type Activities:			
Water	577,616	663,274	0
Sewer	104,355	165,219	0
Sanitation	170,611	170,586	0
TOTAL BUSINESS-TYPE ACTIVITIES	852,582	999,079	0
TOTAL	\$2,984,968	\$1,063,228	\$223,464

* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on long-term debt.

GENERAL REVENUES:

Property taxes
Sales taxes
State shared revenues
Unrestricted investment earnings
Other general revenues

Total General Revenues

Change in net assets

Net Assets-Beginning,
as previously reported
Adjustments (Note 14)

Net Assets-beginning, as restated

NET ASSETS-ending

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGES IN NET ASSETS

Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
\$0	(\$451,298)	\$0	(\$451,298)
0	(471,504)	0	(471,504)
0	(583,671)	0	(583,671)
0	(51,226)	0	(51,226)
0	(228,278)	0	(228,278)
0	(29,237)	0	(29,237)
0	(29,559)	0	(29,559)
0	(1,844,773)	0	(1,844,773)

189,102	0	274,760	274,760
189,102	0	249,966	249,966
0	0	(25)	(25)
378,204	0	524,701	524,701
<u>\$378,204</u>	<u>(\$1,844,773)</u>	<u>\$524,701</u>	<u>(\$1,320,072)</u>

1,018,522	0	1,018,522
621,157	0	621,157
133,943	0	133,943
6,219	5,408	11,627
124,307	0	124,307
<u>1,904,148</u>	<u>5,408</u>	<u>1,909,556</u>
<u>59,375</u>	<u>530,109</u>	<u>589,484</u>
5,027,659	3,145,030	8,172,689
<u>(1,045,500)</u>	<u>0</u>	<u>(1,045,500)</u>
<u>3,982,159</u>	<u>3,145,030</u>	<u>7,127,189</u>
<u>\$4,041,534</u>	<u>\$3,675,139</u>	<u>\$7,716,673</u>

CITY OF LEAD
BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	\$270,195	\$202,389	\$472,584
Taxes receivable-			
Delinquent	32,586	0	32,586
Accounts receivable	5,802	0	5,802
Due from other governments	77,240	1,304	78,544
Inventory of supplies	20,074	0	20,074
Deposits	69,918	0	69,918
TOTAL ASSETS	\$475,815	\$203,693	\$679,508
 LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$25,481	\$1,532	\$27,013
Accrued wages	8,070	849	8,919
Deferred revenue	32,586	0	32,586
Total Liabilities	66,137	2,381	68,518
 FUND BALANCES:			
Reserved for inventory	20,074	0	20,074
Reserved for deposits	69,918	0	69,918
Unreserved:			
Designated for building	60,125	0	60,125
Designated for 2009 budget	229,324	0	229,324
Reported in Special Revenue Funds	0	51,970	51,970
Undesignated	30,237	0	30,237
Reported in Special revenue funds	0	58,249	58,249
Permanent fund	0	91,093	91,093
Total Fund Balance	409,678	201,312	610,990
 TOTAL LIABILITIES AND FUND BALANCES	\$475,815	\$203,693	\$679,508

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF LEAD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
ASSETS
DECEMBER 31, 2008

Total Fund Balances-Government Funds	\$610,990
--------------------------------------	-----------

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	3,842,007
--	-----------

Long-term liabilities, including bonds payable and accrued leave are not due and payable in the current period and therefore are not reported in the funds	(451,288)
--	-----------

Property taxes receivable are reported in the period to be financed by the property tax levy for both the governmental funds and the statement of net assets, but in the funds statement the amounts that are not "available" (within a 30 day period) are offset with deferred revenue	32,586
---	--------

Deferred charges, such as unamortized bond issuance costs, are recorded as an asset in the statement of net assets, but are an expenditure in the funds statement	<u>7,239</u>
---	--------------

Net Assets-Governmental Funds	<u><u>\$4,041,534</u></u>
-------------------------------	---------------------------

The accompanying notes to financial statement are an integral part of this statement.

CITY OF LEAD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$1,028,317	\$33,250	\$1,061,567
General sales taxes	571,921	49,236	621,157
Penalties and interest on taxes	5,793	0	5,793
Licenses and permits	63,253	0	63,253
Intergovernmental Revenue-			0
Federal grants	79,931	0	79,931
State grants	14,926	0	14,926
State shared revenues	150,250	0	150,250
County shared revenues	47,006	103,612	150,618
Charges for goods and services-			
General government	2,759	0	2,759
Public safety	25,569	0	25,569
Highways and streets	3,907	0	3,907
Sanitation	795	0	795
Culture and recreation	4,548	0	4,548
Cemetery	5,238	1,200	6,438
Fines and Forfeits			0
Court fines and costs	2,921	0	2,921
Other	785	0	785
Miscellaneous Revenue			0
Interest earned	1,749	4,470	6,219
Rentals	120	0	120
Contributions from private sources	0	38	38
Other	35,948	3,057	39,005
Total Revenue	<u>\$2,045,736</u>	<u>\$194,863</u>	<u>\$2,240,599</u>

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF LEAD
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	General Fund	Other Governmental Funds	Total Governmental Funds
Expenditures:			
General Government			
Legislative	\$114,556	\$0	\$114,556
Financial administration	178,385	0	178,385
Other	99,863	0	99,863
Public Safety			
Police	411,385	0	411,385
Fire	152,913	0	152,913
Public Works			
Highways and streets	590,643	0	590,643
Cemetery	44,730	0	44,730
Health and Welfare			
Health	46,090	0	46,090
Humane society	5,136	0	5,136
Culture and Recreation			
Recreation	126,140	0	126,140
Parks	74,927	0	74,927
Libraries	0	131,429	131,429
Historic preservation	2,450	0	2,450
Conservation and development			
Economic opportunity	0	29,237	29,237
Debt service	123,685	33,250	156,935
Total Expenditures	<u>1,970,903</u>	<u>193,916</u>	<u>2,164,819</u>
Excess of Revenues Over (Under) Expenditures	74,833	947	75,780
Other Financing Sources:			
Transfers-in	<u>65,992</u>	<u>0</u>	<u>65,992</u>
Net Change in Fund Balances	140,825	947	141,772
FUND BALANCE, JANUARY 1, 2008	<u>268,853</u>	<u>200,365</u>	<u>469,218</u>
FUND BALANCE, DECEMBER 31, 2008	<u><u>\$409,678</u></u>	<u><u>\$201,312</u></u>	<u><u>\$610,990</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

**CITY OF LEAD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Net Changes in Fund Balances-Total Governmental Funds	\$141,772
---	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(74,599)
---	----------

Bond issuance costs are an expenditure in the governmental funds, but are an asset in the Statement of Net Assets	(1,809)
---	---------

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	129,185
--	---------

Property tax revenues are reported in the period to be financed by the property tax levy for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred revenue.	(48,838)
--	----------

Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures	(7,179)
--	---------

Internal service funds are used by management to charge the cost of certain activities, such as health insurance and unemployment insurance to individual funds. The net revenue (expense) of the internal funds is reported with governmental activities.	<div style="border-top: 1px solid black; display: inline-block;">(79,157)</div>
--	---

Change in Net Assets of Governmental Activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block;">\$59,375</div>
---	--

The accompanying notes to financial statements are an integral part of this statement.

CITY OF LEAD
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2008

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Sanitation Fund
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$133,007	\$101,134	\$66,573
Accounts receivable	65,084	14,720	15,517
Total Current Assets	198,091	115,854	82,090
Capital Assets:			
Construction-in-progress	552,447	552,447	0
Buildings	1,371,008	60,068	0
Improvements other than buildings	1,051,137	1,950,622	0
Machinery and equipment	43,050	0	0
Accumulated depreciation	(862,273)	(600,407)	0
Total Noncurrent Assets	2,155,369	1,962,730	0
TOTAL ASSETS	\$2,353,460	\$2,078,584	\$82,090

The accompanying notes to financial statements are an
integral part of this statement.

Total

\$300,714

95,321

396,035

1,104,894

1,431,076

3,001,759

43,050

(1,462,680)

4,118,099

\$4,514,134

CITY OF LEAD
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2008

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Sanitation Fund
LIABILITIES			
Current Liabilities:			
Accounts payable	\$57,889	\$30,928	\$0
Accrued wages	1,631	642	0
Bonds payable current:			
Revenue	18,454	37,130	0
Accrued leave-current	3,871	2,983	0
Total Current Liabilities	81,845	71,683	0
Non-current Liabilities:			
Bonds payable:			
Revenue	248,662	429,951	0
Accrued leave payable	3,871	2,983	0
Total Non-current Liabilities	252,533	432,934	0
NET ASSETS			
Invested in capital assets, net of related debt	1,888,253	1,495,649	0
Unrestricted net assets	130,829	78,318	82,090
Total Net Assets	2,019,082	1,573,967	82,090
TOTAL LIABILITIES AND NET ASSETS	\$2,353,460	\$2,078,584	\$82,090

The accompanying notes to financial statements are an
integral part of this statement.

Total

\$88,817
2,273

55,584

6,854

153,528

678,613

6,854

685,467

3,383,902

291,237

3,675,139

\$4,514,134

CITY OF LEAD
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Sanitation Fund
OPERATING REVENUES:			
Charges for goods and services			
securing payment of revenue bonds	\$663,274	\$165,219	\$0
Charges for goods and services	0	0	170,586
Self-insurance premiums	0	0	0
Total Operating Revenue	663,274	165,219	170,586
OPERATING EXPENSES:			
Personal services	126,647	44,415	0
Other current expense	80,570	5,386	170,611
Cost of goods sold	299,562	0	0
Depreciation	60,423	41,415	0
Self-insurance costs	0	0	0
Total Operating Expenses	567,202	91,216	170,611
Operating Income (Loss)	96,072	74,003	(25)
Non-operating Revenue (Expense)			
Interest earned	4,272	119	1,017
Interest expense	(10,414)	(13,139)	0
Total Non-operating Revenue (Expense)	(6,142)	(13,020)	1,017
Income (loss) before Capital Contributions and Transfers	89,930	60,983	992
Capital Contributions	189,102	189,102	0
Transfers-out	0	0	0
Change in Net Assets	279,032	250,085	992
NET ASSETS, BEGINNING	1,740,050	1,323,882	81,098
NET ASSETS, ENDING	\$2,019,082	\$1,573,967	\$82,090

The accompanying notes to financial statements are an
integral part of this statement.

<u>Total</u>	<u>Internal Service Funds</u>
\$828,493	\$0
170,586	0
0	0
<u>999,079</u>	<u>0</u>
171,062	0
256,567	0
299,562	0
101,838	0
0	13,794
<u>829,029</u>	<u>13,794</u>
<u>170,050</u>	<u>(13,794)</u>
5,408	629
(23,553)	0
<u>(18,145)</u>	<u>629</u>
151,905	(13,165)
378,204	0
0	(65,992)
530,109	(79,157)
<u>3,145,030</u>	<u>79,157</u>
<u>\$3,675,139</u>	<u>\$0</u>

CITY OF LEAD
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	ENTERPRISE FUNDS		
	Water Fund	Sewer Fund	Sanitation Fund
Cash Flows from Operating Activities:			
Receipts from customers	\$692,498	\$163,239	\$169,865
Payments to employees	(389,071)	(10,816)	(170,611)
Payments to suppliers	(132,754)	(44,521)	0
Net Cash Provided by Operating Activities	170,673	107,902	(746)
Cash Flow from Non Capital Financing Activities:			
Transfers-out	0	0	0
Cash Flows from Capital and Related Financing Activities:			
Proceeds from capital debt	0	99,826	0
Capital contributions	189,102	189,102	0
Principal paid on capital debt	(23,707)	(44,108)	0
Interest paid on capital debt	(10,414)	(13,139)	0
Purchases of capital assets	(383,448)	(363,450)	0
Cash Flows from Investing Activities:			
Cash received from interest	4,272	119	1,017
Net Increase (Decrease) in Cash and Cash Equivalents	(53,522)	(23,748)	271
Cash and Cash Equivalents Beginning of Year	186,529	124,882	66,302
Cash and Cash Equivalents End of Year	\$133,007	\$101,134	\$66,573
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$96,072	\$74,003	(\$25)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation expense	60,423	41,415	0
Changes in Assets and Liabilities:			
Receivables	29,224	(1,980)	(721)
Accounts payable	(8,939)	(5,430)	0
Accrued wages	(6,107)	(106)	0
Net Cash Provided by Operating Activities	\$170,673	\$107,902	(\$746)

The accompanying notes to financial statements are an
integral part of this statement.

Total	Internal Service Funds
\$1,025,602	\$0
(570,498)	(17,950)
(177,275)	0
277,829	(17,950)
0	(65,992)
99,826	0
378,204	0
(67,815)	0
(23,553)	0
(746,898)	0
5,408	629
(76,999)	(83,313)
377,713	83,313
\$300,714	\$0
\$170,050	(\$13,794)
101,838	0
26,523	0
(14,369)	(4,156)
(6,213)	0
\$277,829	(\$17,950)

**CITY OF LEAD
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2008**

	Pension Trust Fund
	<u> </u>
ASSETS	
Cash and cash equivalents	\$142,905
Investments	<u>326,381</u>
 Total Assets	 <u><u>\$469,286</u></u>
 LIABILITIES	 \$0
 NET ASSETS	
Held in trust for	
Firemen's Pension	<u>469,286</u>
 Total Liabilities and Net Assets	 <u><u>\$469,286</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF LEAD
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2008

	Pension Trust Fund
	<u> </u>
ADDITIONS	
Fire Insurance Premium Reversion	\$15,052
Interest	<u>11,396</u>
Total Additions	<u>26,448</u>
 DEDUCTIONS	
Benefits	<u>15,359</u>
Total Deductions	<u>15,359</u>
 Change in Net Assets	11,089
 Net Assets - beginning	<u>458,197</u>
 Net Assets - Ending	<u><u>\$469,286</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Lead consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

BASIS OF PRESENTATION

Government-wide Statements: The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole (the City). They include all funds of the reporting entity except fiduciary funds. The statements distinguish between the *governmental and business-type*. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues.

Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or major capital projects) that are legally restricted to expenditures for specified purposes.

Entertainment Tax Fund - to account for a 3rd cent sales tax on motel rooms, restaurants and bars which may only be used for the promotion of the City, land acquisition, civic centers and auditoriums and debt service related to these acquisitions (SDCL 10-52-8). This is not a major fund.

Library fund - to account for library revenues and related expenditures. This is not a major fund.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

"TIF" No. 3 Fund - to account for property taxes which may be used only for the payment of the TIF Revenue Note principal, interest and related costs. This is not a major fund.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanent Funds:

Permanent Funds - permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principle, may be used for purposes that support the City's programs - that is for the benefit of the City and its citizenry.

Cemetery Perpetual Care Fund - to account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery. (SDCL 9-32-18) This is not a major fund.

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The enterprise funds do not apply any Financial Accounting Standards Board (FASB) Statements and interpretation issued after November 30, 1989.

Water Fund - a fund used to record financial transactions related to water utility operations. This fund is financed by user charges and grants. This is a major fund.

Sewer Fund - a fund used to record financial transactions related to sewer operations. This fund is financed by user charges. This is a major fund.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Sanitation Fund - a fund used to record financial transactions related to garbage operations. This fund is financed by user charges. This is a major fund.

Internal Services Funds - Internal Services Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary government and its component units or to other governments, on a cost-reimbursement basis. The Dental Insurance Fund and Unemployment Fund were the only Internal Service Funds maintained by the City. Internal Service Funds are never considered to be major funds. These funds were closed in 2008.

Fiduciary Funds:

Fiduciary funds consist of the following sub-categories and are never considered to be major funds:

Pension (and other employee benefit trust funds) - Pension and other employee benefit trust funds are used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, or other employee benefit plans. The City manages a Firemen's Pension Trust. See the detailed note number 11 for more information.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

period does not exceed one bill-paying cycle, and for the City of Lead, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2008 are sales tax, real estate taxes, state shared revenues and miscellaneous other revenues.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statement have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as internal receivables and payables have been eliminated in

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the Internal Services Funds, so that expenses are reported only in the function to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources".

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statement

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2008 balance of governmental activities capital assets includes approximately 50 percent for which the costs were determined by estimates of the original costs. The total December 31, 2008 balance of business-type capital assets includes about 50 percent for which the costs were determined by estimation of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalk, drainage systems and lighting systems acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements other than Buildings".

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	All	-	-
Buildings	50,000	Straight-line	20-100 years
Improvements	25,000	Straight-line	15-50 years
Machinery and Equipment	5,000	Straight-line	4-20 years

Land, an inexhaustible capital asset, is not depreciated.

f. Long-term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of general obligation bonds, revenue bonds payable and capital leases payable.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principle and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

g. Cash Flows and Cash Equivalents:

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows.

1. Charges for services - These arise from charges to customers, applicants or others who purchase, use or directly benefit from the goods, services or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for use in a particular program.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities or investing activities are not reported as components of operating revenues or expenses.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balance of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity is reported as net assets held in trust for other purposes.

Application of Net Assets:

It is the City's policy to first use restricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letter of credit issued by Federal Home Loan Banks accompanied by written evidence of that banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Investments - In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk - State law limits investments for the City, as discussed above. The City has no investment policy that would further limit investment choices.

The investments held at December 31, 2008 were as follows:

	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value</u>
Mutual Funds:			
U. S. Government			
Security Funds	Unrated	N/A	\$ 326,381
TOTAL INVESTMENTS			<u>\$ 326,381</u>

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2008, none of the City deposits in financial institutions were exposed to custodial credit risk.

Custodial Credit Risk - Investments - The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer. 100 percent of the City's investments are in a mutual fund.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

3. DEFERRED REVENUE

Receivables, such as taxes receivable, may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but which revenue recognition criteria have not been met.

4. INVENTORY

Inventory in the General Fund and special revenue funds consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

4. INVENTORY (continued)

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories are off-set by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2008 follows:

	Balance 1/1/08	Additions	Deletions	Balance 12/31/08
Governmental Activities:				
Capital Assets				
Not being				
Depreciated				
Land	\$2,854,203	\$ -	\$ -	\$2,854,203
Capital Assets				
Being Depreciated				
Buildings	2,237,230	-	1,900,000	337,230
Improvements	710,680	-	-	710,680
Equipment	1,064,668	-	-	1,064,668
Totals	4,012,578	-	1,900,000	2,112,578
Less accumulated				
Depreciation for:				
Building	977,730	15,827	854,500	139,057
Improvements	241,863	14,709	-	256,572
Equipment	685,082	44,063	-	729,145
Total	1,904,675	74,599	854,500	1,124,774

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

5. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/08	Additions	Deletions	Balance 12/31/08
Total Capital Assets being Depreciated-Net	\$2,107,903	\$ (74,599)	\$1,045,500	\$ 987,804
Governmental Activity Capital Assets Net	\$4,962,106	\$ (74,599)	\$1,045,500	\$3,842,007

See Note 14 regarding the above deletions.

Depreciation expense was charged to functions as follows:

General Government	\$ 41,029
Public Safety	16,412
Public Works	15,666
Culture and Recreation	1,492
	<u>\$ 74,599</u>

	Balance 1/1/08	Additions	Deletions	Balance 12/31/08
--	-------------------	-----------	-----------	---------------------

Business-type Activities:

Capital Assets Not Being Depreciated Construction in progress	\$ 569,730	\$ 646,968	\$ 111,804	\$1,104,894
Capital Assets Being Depreciated				
Buildings	\$1,454,126	\$ -	\$ 23,050	\$1,431,076
Improvements	2,889,955	111,804	-	3,001,759
Equipment	-	43,050	-	43,050
Totals	<u>4,344,081</u>	<u>154,854</u>	<u>23,050</u>	<u>4,475,885</u>

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

5. CHANGES IN CAPITAL ASSETS (continued)

	<u>Balance</u> <u>1/1/08</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/08</u>
Less accumulated				
Depreciation for:				
Building	\$ 615,728	\$ 37,803	\$ 23,050	\$ 630,481
Improvements	745,114	60,035	-	805,149
Equipment	<u>-</u>	<u>27,050</u>	<u>-</u>	<u>27,050</u>
Total	<u>1,360,842</u>	<u>124,888</u>	<u>23,050</u>	<u>1,462,680</u>
Total Capital Assets				
being depreciated,				
net	<u>2,983,239</u>	<u>29,966</u>	<u>\$ -</u>	<u>\$3,013,205</u>
Business-type Activity				
Capital Assets				
Net	<u>\$3,552,969</u>	<u>\$ 676,934</u>	<u>\$ 111,804</u>	<u>\$4,118,099</u>

Depreciation expense was charged to functions as follows:

Water	\$ 60,423
Sewer	<u>41,415</u>
	<u>\$101,838</u>

Construction in progress consists of the following:

<u>Project Name</u>	<u>Approved</u> <u>Cost</u>	<u>Costs</u> <u>Incurred</u>	<u>Costs</u> <u>Committed</u>
2008 Infrastructure			
Improvements	<u>\$1,800,000</u>	<u>\$1,104,894</u>	<u>\$ 695,106</u>

The above costs will be financed by grants, loans and local cash. The City is authorized a \$240,000 "SRF" loan, of which \$134,394 has been drawn down through December 31, 2008.

6. LONG-TERM DEBT

A summary of changes in long-term debt follows:

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT (continued)

	<u>General Obligation</u>	<u>Capital (Financing) Lease</u>	<u>Tax Increment Bonds</u>	<u>Compen- sated Absences</u>	<u>Totals</u>
Governmental Activities:					
Debt Payable, January 1, 2008 \$	\$295,000	\$147,290	\$ 91,119	\$ 39,885	\$ 573,294
Increases	-	-	-	27,122	27,122
Decreases	<u>(95,000)</u>	<u>(11,917)</u>	<u>(22,268)</u>	<u>(19,943)</u>	<u>(149,128)</u>
Debt payable, December 31, 2007	<u>\$200,000</u>	<u>\$ 135,373</u>	<u>\$ 68,851</u>	<u>\$ 47,064</u>	<u>\$ 451,288</u>
Due within One Year	<u>\$100,000</u>	<u>\$ 12,824</u>	<u>\$ 24,980</u>	<u>\$ 23,532</u>	<u>\$ 161,336</u>

	<u>Revenue</u>	<u>Compensated Absences</u>	<u>Total</u>
Business-type Activities:			
Debt Payable, January 1, 2008	\$702,186	\$ 16,981	\$ 719,167
Increases	99,826	5,217	105,043
Decreases	<u>(67,815)</u>	<u>(8,490)</u>	<u>(76,305)</u>
Debt payable, December 31, 2008	<u>\$734,197</u>	<u>\$ 13,708</u>	<u>\$ 747,905</u>
Due within One Year	<u>\$ 55,584</u>	<u>\$ 6,854</u>	<u>\$ 62,438</u>

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT (continued)

Debt payable at December 31, 2008 is comprised of the following:

Governmental Activities:

General Obligation Refunding Bonds -	
Series 2003, Interest rate of 2.75-3.75%,	
maturing January, 2011. Retired by the	
General Fund	<u>\$ 200,000</u>

Financing (Capital Acquisition) Leases:

Caterpillar Financial Services, interest rate	
Of 4.50%, maturing January, 2013, paid by the	
General Fund	<u>135,373</u>

The purchase price at the commencement of the financing (capital acquisition) leases was:

Principal	\$ 176,931
Interest	<u>30,605</u>
Total	<u><u>\$ 207,536</u></u>

Tax Increment Financing Debt:

TIF #3 Revenue Note, interest rate of	
11.585%, maturing June 17, 2011, paid	
by the Tax Increment District #3 fund	<u>68,851</u>

Accrued leave, payable by the General	
Fund	<u>\$ 47,064</u>

Total Governmental Activities	<u><u>\$ 451,288</u></u>
-------------------------------	--------------------------

Business-type Activities:

Revenue Bonds:

1990 State Revolving Fund, interest rate	
of 3%, maturing August 1, 2011, paid by	
the Sewer Fund	\$ 30,801

2002 State Revolving Fund, interest rate	
of 4.5%, maturing October 1, 2012, paid	
by the Water Fund	87,585

2002 State Revolving Fund, interest rate	
of 4.5%, maturing October 1, 2012, paid	
by the Sewer Fund	108,664

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT (continued)

2005 State Revolving Fund, interest rate of 3.25%, maturing October 1, 2035, paid by the Water Fund	\$ 179,531
2005 State Revolving Fund, interest rate of 3.25%, maturing October 1, 2025, paid by the Sewer Fund	193,222
2007 State Revolving Fund, interest rate will be 3.25%, and terms of repayment not determined yet. Loan will be repaid by the Sewer Fund.	<u>134,394</u>
Total Revenue Bonds	<u>734,197</u>
Accrued leave, payable by the Water and Sewer Funds.	<u>13,708</u>
Total Business-type Activities	<u>\$ 747,905</u>

The annual requirements to amortize all debt outstanding as of December 31, 2008, excluding compensated absences, is as follows:

Annual Requirements to Amortize Long-term Debt
December 31, 2008

Governmental Activities:

Year Ending December 31,	General Obligation		Capital (Financing) Leases	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$100,000	\$ 7,300	\$ 12,824	\$ 5,426
2010	100,000	3,750	13,315	4,935
2011			14,818	3,432
2012			16,230	2,020
2013			78,186	1,600
Total	<u>\$200,000</u>	<u>\$11,050</u>	<u>\$135,373</u>	<u>\$17,413</u>

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM DEBT (continued)

Year Ending December 31,	Tax Increment Bonds		Total	
	Principal	Interest	Principal	Interest
2009	\$ 24,980	\$ 7,390	\$ 137,804	\$ 20,116
2010	28,022	4,347	141,337	13,032
2011	15,849	899	30,667	4,331
2012	-	-	16,230	2,020
2013	-	-	78,186	1,600
Total	<u>\$ 68,851</u>	<u>\$12,636</u>	<u>\$ 404,224</u>	<u>\$ 41,099</u>

Business-type Activities:

Year Ending December 31,	Revenue	
	Principal	Interest
2009	\$ 55,584	\$ 19,042
2010	79,192	24,176
2011	77,262	21,016
2012	86,284	17,999
2013	21,815	15,262
2014-2018	121,711	63,671
2019-2023	142,065	43,317
2024-2028	87,453	16,509
2029-2033	43,405	6,954
2034-2037	<u>19,426</u>	<u>717</u>
Total	<u>\$734,197</u>	<u>\$228,663</u>

7. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During the year ended December 31, 2008 the City managed its risk as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial carrier. The policy carries a \$500 deductible.

Employee Dental Insurance:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for dental benefits.

The coverage provides a deductible of \$25 per person each calendar year. The coverage provides a \$1,500 maximum benefit each calendar year.

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Claims payable, beginning of year	\$ -	\$ 625	\$ 4,156
Claims incurred during the year	21,738	26,410	13,794
Claims paid during the year	<u>(21,113)</u>	<u>(22,879)</u>	<u>(17,950)</u>
Claims payable, end of year	<u>\$ 625</u>	<u>\$ 4,156</u>	<u>\$ -</u>

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT (continued)

sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensations coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute.

The Pool pays the first \$325,000 of any claim per individual. The Pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Liability:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in

a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for automobiles and general liability. The agreement with the SDPAA Provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT (continued)

in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of the City's first full year	50%
End of the City's second full year	60%
End of the City's third full year	70%
End of the City's fourth full year	80%
End of the City's fifth full year	90%
End of the City's sixth full year	
and thereafter	100%

As of December 31, 2008, the City has vested balance in the cumulative reserve fund of \$69,918.

The City carries a \$1,000 deductible for the automotive coverage and \$1,000 deductible for the general liability coverage.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended December 31, 2008 no claims for unemployment benefits were incurred. At December 31, 2008, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Claims payable, beginning of year	\$ -	\$ -	\$ -
Claims incurred during the year	918	-	-

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

8. RISK MANAGEMENT (continued)

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Claims paid during the year	\$ (918)	\$ -	\$ -
Claims payable, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

9. MATERIAL NONCOMPLIANCE

The City had instances of material noncompliance of S. D. budgetary statutes 9-21-9 during 2008. Budget overdrafts in the Entertainment Fund totaled \$14,237. The City will obtain the necessary supplemental appropriations in the future, should similar circumstances become necessary.

10. RETIREMENT PLAN

All employees, except firemen, part-time or seasonal, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P. O. Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

General employees are required by state statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2008, 2007 and 2006 were \$51,858, \$45,257 and \$44,578 respectively, equal to the required contribution.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

11. FIREMEN'S PENSION

Plan Description:

The City of Lead also sponsors and administers the Firemen Pension Fund (the plan). This is a single-employer; defined benefit pension plan established under the authority of SDCL 9-16-20 and 9-16-3. The membership of the plan includes all full-time firemen in the employ of the City. A firemen's pension board of five members is in charge of the administration, management and operation of the plan. The plan is supposed to be reviewed biennially by an actuary firm. The City Commission established and can make changes to the plan through ordinances of the City of Lead.

The system is a defined benefit pension plan. Pursuant to City ordinances, the members contribute 6 percent of compensation. Members' contributions earn interest at 6 percent. Members' contributions and earned interest may be withdrawn upon termination of employment. The plan is considered to be part of the City of Lead and is included in the City of Lead financial reports as a Pension Trust Fund. Contributions are made in accordance with the recommendations of the actuary. The City's contributions for the years ended December 31, 2008, 2007 and 2006 were \$0, \$0, and \$1,941, respectively.

The plan consisted of the following members at December 31, 2008:

Retirees and beneficiaries currently receiving
Benefits

2

Retirement with no reduction for early retirement occurs at 20 years of service or at the age of 60 regardless of service. Benefits commence at age 55 with the completion of 10 years of service.

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

11. FIREMEN'S PENSION

Deferred retirement is computed as a regular retirement benefit but based on service and final average compensation at the time of termination. Eligibility for deferred retirement occurs after 10 years of service or at age 60 regardless of service. Benefits from deferred retirement commence at age 55 with the completion of 10 years of service.

The standard benefit upon retirement is equal to 2.75 percent times the first 25 years of service, plus 1.5 percent times years of service in excess of 25 years. Maximum benefits are 75 percent of earnings of a first-class fireman during the year of retirement.

Final average compensation means the five consecutive years preceding retirement.

FIREMEN'S PENSION FUND
SCHEDULE OF FUNDING PROGRESS

<u>Valuation Date December 31,</u>	<u>Actuarial Asset Value</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>
1986	\$174,753	\$135,761	\$ (38,992)	128.7%
1988	206,706	146,057	(60,649)	141.5%
1989	226,898	152,254	(74,644)	149.0%
1991	272,088	177,133	(94,955)	153.6%
1993	320,945	227,183	(93,762)	141.3%
1995	375,915	273,263	(102,652)	137.6%
1997	430,447	383,124	(47,323)	112.4%
1999	464,708	419,354	(45,354)	110.8%
2001	414,767	344,979	(69,788)	120.2%
2003	431,868	360,712	(71,156)	119.7%

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

11. FIREMEN'S PENSION (continued)

FIREMEN'S PENSION FUND
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

<u>Fiscal Year</u> <u>Ended</u> <u>December 31,</u>	<u>Required</u>	<u>Employer</u> <u>Actual</u>	<u>County</u>	<u>Percentage of</u> <u>ARC Contributed</u>
1991	\$6,155	\$6,155	\$ -	100%
1992	7,696	7,696	-	100%
1993	7,094	7,094	-	100%
1994	6,563	6,563	-	100%
1995	\$6,860	\$6,860	\$ -	100%
1996	7,055	7,055	-	100%
1997	7,856	7,856	-	100%
1998	8,133	8,133	-	100%
1999	8,104	8,104	-	100%
2000	5,217	5,217	7,453	100%
2001	4,632	4,632	8,708	100%
2002	3,542	3,542	9,232	100%
2003	3,473	3,473	9,982	100%
2004	-	-	10,004	100%
2005	855	855	10,457	100%
2006	1,941	1,941	18,237	100%
2007	-	-	12,882	100%
2008	-	-	15,052	100%

Summary of Actuarial Methods and Assumptions

Valuation date:	December 31, 2003
Amortization method:	Level percent of payroll, Period - 15 years
Asset valuation method:	Market value of assets
Actuarial assumptions:	
Investment rate of return	6.0% per compounded annually
Projected salary increases	4.5% to 7.5% per year
Post retirement:	
Cost-of-living adjustments	None

CITY OF LEAD
NOTES TO FINANCIAL STATEMENTS

11. FIREMEN'S PENSION (continued)

The above is the most current available information as of June 19, 2009.

12. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes on the Statement of Net Assets:

<u>Restriction</u>	<u>Restricted by</u>	<u>Amount</u>
Cemetery	Law	\$ 91,093
Insurance	Insurance Company	<u>69,918</u>
		<u>\$161,011</u>

13. INTERFUND TRANSFERS

\$65,992 was transferred to the General Fund from the Internal Service Fund to eliminate the Internal Service Fund.

14. ADJUSTMENT TO BEGINNING NET ASSETS

The December 31, 2007 net assets of the Governmental Activities included the local "YMCA" building. In 2008 the City found that this building actually belongs to the YMCA, hence the carrying value of it is removed from net assets.

**CITY OF LEAD
SCHEDULE OF CURRENT AUDIT FINDINGS**

FINDING NUMBER 2008-01:

CONDITION FOUND:

A lack of proper segregation of duties is the present situation in the City's accounting department.

CRITERIA:

Duties should be segregated so the same employees who handle cash do not record cash transactions nor have general ledger access. Bank reconciliation should be performed by personnel not involved with the check writing process. Other financial and accounting functions should be done by separate people.

CAUSE AND EFFECT:

Management of the City has determined the present size of the staff in the Finance Department. The effect of this decision precludes an adequate segregation of duties.

RECOMMENDATION:

The Mayor and Council Members should always be aware of this weakness as they review and approve transactions of the City and resulting financial reports. Compensating controls should be implemented whenever and wherever possible.

CITY RESPONSE:

The City agrees with this finding, but believes that the cost of hiring additional staff to segregate the duties exceeds the benefits to be derived from such action. Management intends to maintain a constant awareness of this weakness and will study each person's duties to ascertain where mitigating controls may be implemented.

FINDING NUMBER 2008-02:

CONDITION FOUND:

Budget overdrafts occurred in the Entertainment Tax Fund during 2008, resulting in \$14,237 being expended without budgetary authority, contrary to SDCL 9-21-9.

CRITERIA:

SDCL 9-21-9 states "Neither the governing body nor any department or officer of the City shall add to the City expenditures in any fiscal year any sum in excess of the amount provided for in the

CITY OF LEAD
SCHEDULE OF CURRENT AUDIT FINDINGS

annual appropriation ordinance except as otherwise specially provided. Nor shall the amount spent for any purpose or any department exceed the total amount appropriated for such purpose or for such department in the annual appropriation ordinance for such year, except as otherwise specially provided".

CAUSE AND EFFECT:

Due to inadequate internal control and accounting procedures, the Entertainment Tax Fund budget was overspent in 2008 by \$14,237. The effect of this was a violation of SDCL, the City's appropriation ordinance and an override of an important internal control tool (the budget).

RECOMMENDATION:

Budget versus actual year-to-date comparisons should be prepared on a monthly basis so management can monitor the budget and provide supplemental appropriations if conditions are such that increased spending is necessary.

CITY RESPONSE:

Management agrees with this finding. Our corrective action plan will be for timely budget to actual monitoring of all expenditures by the City Administrator with monthly reports to the City Commission of the status of unexpended budgets.

FINDING NUMBER 2008-03:

CONDITION FOUND:

The City failed to comply with South Dakota Codified law (SDCL) in regards to its fiduciary requirements for maintaining the Firemen's Pension Plan.

CRITERIA:

SDCL 9-16-5.3 requires an annual report containing financial statements and an actuarial valuation to be filed with the Retirement Laws Committee. This report was not filed for the years ending December 31, 2008, 2007 or 2006.

SDCL 9-16-5.4 required the above report to be audited by a qualified certified public accountant and it should include data accumulated by an approved actuary as defined by SDCL 3-12-47.7. This requirement has not been met in recent years, if ever.

**CITY OF LEAD
SCHEDULE OF CURRENT AUDIT FINDINGS**

FINDING NUMBER 2008-03 (Continued):

CONDITION, CAUSE AND EFFECT:

The City officials inadvertently failed to comply with the requirements of maintaining SDCL compliance regarding the Firemen's Pension Plan. The effect of the oversight was a violation of SDCL.

RECOMMENDATION:

City officials should comply with the audit and actuarial reporting requirements of SDCL's concerning the Firemen's Pension Plan.

CITY RESPONSE:

Management agrees with this finding and is in the process of implementing the recommendation.

FINDING NUMBER 2008-04

CONDITION FOUND:

Fixed asset records were inadequate.

CRITERIA:

Fixed asset records should include comprehensive lists of all land, buildings, improvements and equipment that have a cost greater than the City's capitalization policy. The City's lists of such assets were found to be incomplete and lacking in supporting documentation.

CAUSE AND EFFECT:

The records have not been properly maintained resulting in diminished control and possible inaccurate reporting.

RECOMMENDATION:

The City should conduct a comprehensive physical inventory of all fixed assets and update the subsidiary records accordingly. Costs (or estimated costs) of the assets should be properly documented.

CITY RESPONSE:

The City agrees with the finding and intends to comply with the recommendations as soon as possible.

**CITY OF LEAD
SCHEDULE OF PRIOR AUDIT FINDINGS**

FINDING NUMBER 2006-01 and 2007-01:

A lack of proper segregation of duties is the present situation in the City's accounting department.

This finding was first reported in 1998.

CURRENT STATUS:

The condition remains the same as of December 31, 2008.

FINDING NUMBER 2006-02 and 2007-02

The General Fund budget was overspent by material amounts, in violation of South Dakota budgetary laws.

CURRENT STATUS:

The 2008 budget for the Entertainment Tax Fund was overspent by a material amount.

FINDING NUMBER 2006-03 and 2007-03:

The City failed to comply with SDCL in regards to maintaining the Firemen's Pension Fund.

CURRENT STATUS:

The condition remains the same as of December 31, 2008.

FINDING NUMBER 2006-04 and 2007-04:

Fixed asset records were inadequate.

CURRENT STATUS:

The condition remains the same as of December 31, 2008.